COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF CREATIVE LEARNING INSTITUTE – A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on Creative Learning Institute's (CLI) fiscal operations for the period January 1, 1999 through December 31, 1999. CLI is licensed to operate one group home with a combined maximum resident capacity of six children. During the period of our review, the Agency received approximately $137,000 in group home funds from the Department of Children and Family Services (DCFS). CLI is located in the Second Supervisorial District. We reviewed this agency at DCFS' request.

Summary of Findings

We have questioned a total of $36,466 in expenditures made by CLI. The questioned costs include $6,024 in expenditures not supported by vendor invoices, $10,000 in payments made to the Agency's board members and $9,259 in inadequately supported cash withdrawals. We also questioned $4,040 in payments made to independent contractors for which the Agency could not provide adequate supporting documentation.

We also noted an outstanding loan liability of $74,394, which is not adequately supported. The Agency should refrain from using group home funds to repay this liability until they can provide adequate documentation for the amount owed.

We noted serious deficiencies in CLI's controls over the disbursement of group home funds that contributed to the questioned expenditures discussed above. We also noted areas where CLI needs to strengthen internal controls over their accounting and payroll procedures. DCFS should ensure that the Agency's management takes appropriate corrective actions to address the recommendations in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Review of Report

We discussed our report with CLI's management on January 17, 2001. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days, outlining the resolution of all the findings and questioned costs contained in our report.

We thank CLI's management and staff for their cooperation during our review.

JTM:PTM:MR:RD

Attachment

c: David E. Janssen, Chief Administrative Officer
Public Information Office
Audit Committee Members
Commission for Children and Families
Department of Children and Family Services
Anita Bock, Director
Barry Chass, Assistant Division Chief
Ed Sosa, Chief, Out of Home Care Programs
Genevra Gilden, Chief, Quality Assurance Division
Creative Learning Institute
Executive Director
Board of Directors
California Department of Social Services
Sharon Ferrante, Chief, Foster Care Audits Bureau
Evelyn Hemenover, Chief, Foster Care Rates Bureau

Creative Learning Institute
Fiscal Audit of Group Home Foster Care Contract

Schedule of Findings

Background

The Department of Children and Family Services (DCFS) contracts with Creative Learning Institute (CLI) to provide the basic needs and services for foster care children placed in the Agency's care. CLI is licensed to operate one group home with a capacity of six children, and is located in the Second Supervisorial District.

Under the provisions of the contract, the County pays CLI a monthly rate for each child based on a rate classification level determined by the California Department of Social Services (CDSS). CLI received a monthly rate of $3,751 per child during the period of our review, January 1, 1999 through December 31, 1999, a total of approximately $137,000 in foster care funds.

Applicable Regulations and Guidelines

CLI is required to operate in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- Group Home Foster Care Contract (Contract), including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).

- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular).

- California Department of Social Services - Manual of Policies and Procedures (CDSS - MPP).

- California Code of Regulations, Title 22 (Title 22).

Questioned Costs

CLI used group home funds for questioned costs totaling $36,466. Details of the questioned costs are discussed below.

Unsupported/Inadequately Supported Costs

We identified group home expenditures totaling $30,836 that were not supported by adequate documentation, as follows:

Unsupported Costs

We found $6,024 in expenditures not supported by vendor invoices. According to the Agency, these expenditures included costs for automobile insurance, telephone charges and late fees for the Agency's daycare center.

Inadequately Documented Costs

The following expenditures were not adequately documented, as required by the contract:

- $10,000 in loan repayments to board members (see discussion of loan liability under "Inadequate Accounting Procedures" below).

- $9,259 in cash withdrawals from the Agency bank account where the invoices and receipts provided to support these expenditures did not equal the amounts of the withdrawals. Of this amount, $4,050 was reportedly used for rent on the group home property. However, the withdrawals did not correspond to the rent amount specified in the lease agreement.

- $502 in utility payments for which the Agency did not maintain itemized invoices.

- $368 for 23 tickets to an amusement park. At the time of the trip, the Agency only had three group home residents.

- $300 for the purchase of a washer and dryer which we were unable to locate.

- $46 cash withdrawal and gasoline charge that was not supported by mileage logs or other documentation.

Salaries

We found $297 in payments to seven Agency employees that were paid for hours in excess of those supported by their timecards.

Independent Contractors

We noted $4,040 in payments to independent contractors for which the Agency could not provide adequate supporting documentation. We were unable to verify the type of work performed, or to locate a work schedule or a rate of compensation for these contractors. Of the total above, $700 was paid to an Agency employee for maintaining and cleaning the Agency's pool. However, their was no contract or invoice for these services. Also, one contractor was paid $1,500 for fundraising services the Agency claims was for their daycare program (fundraising costs are unallowable under group home guidelines). However, the Agency did not maintain adequate documentation for the payment and did not appropriately allocate the charge to their daycare program.

Unallowable Costs

We identified group home expenditures totaling $4,299 that are not allowable, as defined by the Circular:

- $2,500 for capital improvements to the group home property. Per the Circular, Attachment B section 15, capital improvements for land or buildings are unallowable without prior approval from the awarding agency (DCFS).

- $1,025 in wages paid to a full time daycare worker that did not serve group home residents. The Agency did not allocate this expense to their daycare program (see also "cost allocation" under the Inadequate Accounting Procedures section below).

- $774 for cremation services for the Executive Director's father-in-law.

Overpayments

We found $1,331 in overpayments to the Agency for the month of May 1999 where the group home was paid in excess of the duration of their client's residence in the home.

Recommendations

1. DCFS management resolve the $36,466 in questioned costs and, if appropriate, collect any disallowed amounts.

In order for Creative Learning Institute to appropriately account for foster care funds and administer the group home program in compliance with the terms of their agreement with the County, the Agency must immediately implement the following recommendations:

CLI management:

2. **Maintain supporting documentation for all expenditures, as required by the contract.**

3. **Use group home funds only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the group home.**

4. **Maintain current written agreements with independent contractors.**

5. **Ensure that employee salaries are accurately calculated.**

Contract Compliance and Internal Controls

Our audit disclosed several contract compliance issues and internal control weaknesses in addition to those already mentioned. These deficiencies contributed to the questioned expenditures discussed above. DCFS should ensure that CLI's management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Inadequate Accounting Procedures

We found the following deficiencies in CLI's accounting procedures that substantially reduced our reliance on the accuracy and completeness of their accounting records:

- The balance sheet dated December 31, 1999 showed outstanding liabilities totaling $74,394 that were not adequately supported. According to management, this liability represents outstanding loans owed to the Agency's board members and Executive Director. However, the Agency did not have a loan agreement for the amounts owed and did not show the initial deposit of the loans into the Agency's account.

- The Agency did not maintain an accounts receivable ledger or client attendance logs with which to reconcile payments received from DCFS.

- The Agency did not prepare bank reconciliations or duplicate deposit slips.

- Expenditures were frequently misclassified in the general ledger.

- CLI has four different programs/funding sources: DCFS Group Homes, daycare, Community Development Block Grant (CDBG) and the State Residential Child Care Institutional (RCCI) program. CLI did not allocate each program's respective revenues and expenditures during the period of our review. CLI management needs to develop and implement a cost allocation plan that incorporates the cost principles specified in the Circular and A-C Handbook. In addition, the Agency needs to apply the plan retroactively so that the shared expenses described above are charged appropriately to each program.

Recommendations

CLI management:

6. Refrain from using group home funds to repay the $74,393 accumulated liability until the Agency can provide documentation to support this payable.

7. Maintain accounting records as required by the contract, including an accounts receivable ledger, a daily attendance log, bank reconciliations and supporting documentation for all receipts and disbursements.

8. Develop and implement a cost allocation plan in accordance with the cost principles specified in the Circular and the A-C Handbook.

9. Apply the cost allocation plan retroactively.

Disbursements

- Supporting documents such as invoices and receipts were not marked "paid" and were not referenced to a cancelled check or filed systematically.
- Numerous checks were made payable to “cash”. The Agency should establish a petty cash fund for “cash” transactions, and maintain it on an imprest basis.
- During our review, we found $1,390 in various penalties and fines, including overdraft charges, returned check and stop payment fees and late payment charges for various utility bills. CLI management should take steps to better manage their cash flows so that they are not assessed unnecessary charges such as those mentioned above. These types of charges will be questioned in future audits.

Recommendations

CLI management:

10. Ensure that invoices are marked “paid” or otherwise cancelled and are referenced to an underlying check.

11. Establish a petty cash fund for all non-check disbursements, with a fund balance of not more than $500, and maintain it on an imprest basis.

12. Take steps to better manage their cash flow so that they are not assessed unnecessary fines and penalties.

Payroll

- Personnel files did not contain authorized salary rates, pay history or current employee benefit balances.
- Time cards were not consistently reviewed or approved by management.
- Payroll taxes were not regularly deducted or remitted to the IRS and the State.

Recommendations

CLI management:

13. Maintain complete personnel and payroll records for all employees, including salary and benefit information.

14. Ensure that timecards are signed by employees and reviewed and approved by management.

15. Ensure that payroll taxes are appropriately calculated, deducted and remitted on a timely basis.